



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

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Essential Air Service at

**KINGMAN AND PRESCOTT, ARIZONA,
ALAMOGORDO/HOLLOMAN AIR FORCE
BASE, NEW MEXICO,
CLOVIS, NEW MEXICO,
and
SILVER CITY/HURLEY/DEMING, NEW
MEXICO**

under 49 U.S.C. 41731 *et seq.*

Dockets OST-1996-1899

**OST-1996-1901
OST-1996-1902
and
OST-1996-1903**

FINAL ORDER

Summary

By this Order the Department is making final the tentative selection originally proposed in show-cause Order 98-12-26, December 22, 1998, of Mesa Air Group to provide basic essential air service with subsidy support at Kingman and Prescott, Arizona, and Alamogordo/Holloman Air Force Base, Clovis, and Silver City/Hurley/Deming, New Mexico, for annual rates totaling \$3,441,053.

Background

By Order 98-12-26, December 22, 1998, the Department tentatively reselected Mesa Air Group to provide basic essential air service at Kingman and Prescott, Arizona, and Alamogordo/Holloman Air Force Base (Alamogordo), Clovis, and Silver City/Hurley/Deming (Silver City), New Mexico, for annual subsidy rates totaling

\$3,441,053. That service consisted of 18 one-stop or nonstop Kingman-Phoenix and 18 nonstop Prescott-Phoenix round trips each week for an annual subsidy of \$865,128; 18 nonstop Alamogordo-Albuquerque round trips each week (or 24 one-stop round trips) for \$777,127 annually; 18 nonstop Clovis-Albuquerque round trips each week for \$926,594 annually; and 18 nonstop Silver City-Albuquerque round trips each week for \$872,204 annually. All service was to be provided with 19-passenger Beech 1900 aircraft.

As is customary in essential air service carrier reselection cases, Order 98-12-26 provided for interested air carriers to submit competing proposals. One such carrier, Equity Air Holdings, Inc., a nonoperating carrier based in Gwynedd, Pennsylvania, submitted a variety of proposal options for all five communities. All of these options contemplate the use of either Fairchild/Dornier Metro or Beech 1900 aircraft configured at 19 passenger seats and are summarized as follows:

Kingman and Prescott, Alternative A: Equity would provide 18 round trips each week to Phoenix for an annual subsidy rate of \$739,901.

Kingman and Prescott, Alternative B: Equity would provide 18 round trips each week to Phoenix and 12 round trips each week to Las Vegas for an annual subsidy rate of \$866,958.¹

Alamogordo and Silver City, Alternative A: Equity would operate 18 round trips each week to Albuquerque over a routing that would serve both essential air service points for an annual subsidy rate of \$959,018.

Alamogordo and Silver City, Alternative B: Equity would operate 24 round trips each week to Albuquerque and 12 round trips each week to Phoenix over a routing that would serve both essential air service points for an annual subsidy rate of \$1,919,414.

Alamogordo, Alternative C: Equity would operate 18 nonstop round trips each week between Alamogordo and Albuquerque for an annual subsidy rate of \$754,412.

Silver City, Alternative D: Equity would operate 18 nonstop round trips each week between Silver City and Albuquerque for an annual subsidy rate of \$848,256.

Clovis, Alternative A: Equity would operate 18 nonstop round trips each week to Albuquerque for an annual subsidy rate of \$881,865.

Clovis, Alternative B: Equity would operate 18 nonstop round trips each week to Albuquerque and 12 nonstop round trips each week to Dallas/Ft. Worth for an annual subsidy rate of \$1,154,966.

¹ As we have indicated to the carrier and the community parties, the current level of funding for the Essential Air Service Program weighs heavily against selecting two-hub proposals.

In response to the competing proposals filed by Equity, Mesa informed us that it will stand by the original service/subsidy proposals reflected in Order 98-12-26 (and summarized above).

Community Comments

By letters dated May 17, 1999, we advised the Mayors and Airport Managers of Kingman, Prescott, Alamogordo, Clovis, Silver City, Hurley, and Deming; the Commanding Officer of Holloman Air Force Base; the Director of the Aeronautics Division, Arizona Department of Transportation; and the Director of the New Mexico State Highway & Transportation Department, Transportation Division, of the results of our negotiations with the two applicant carriers, and sought comments on carrier selection from these officials.

The comments we received from the communities are summarized as follows:

- (1) A selection committee comprised of Directors of the Kingman Airport Authority and the Mayor and City Council members, "...reluctantly recommends that Mesa Airlines continue to provide service to Kingman." The committee cited what it characterized as the doubling of air fares and the deterioration of the flight schedule as responsible for a declining trend in passenger enplanements in recent years, despite continued growth of the community. Although the committee looked favorably at Equity's proposal, it did not feel comfortable supporting Equity at this time.
- (2) The Prescott City Council voted to recommend Mesa, citing its belief that a continuation of service by Mesa would be more beneficial to the community than service by Equity. The City Council emphasized, though, that its recommendation did not constitute an endorsement of the fares charged by Mesa or the quality of service provided by Mesa over the past few years. The City Council stated its belief that Prescott's passenger enplanements have dropped significantly due to what it characterized as "inconsistent service" and a "lack of community involvement" by Mesa.
- (3) The Manager of the Alamogordo-White Sands Regional Airport expressed support for Mesa, stating that, "The level of service Mesa has provided over the past fifteen years meets the purpose of the EAS program and for the most part serves the needs of the Alamogordo area to include Holloman Air Force Base." The Airport Manager went on to indicate support for "additional subsidies to the successful air carrier" to operate service to two hubs (to either Dallas or Phoenix, in addition to Albuquerque).
- (4) The Vice Commander of Holloman Air Force Base expressed support for Mesa, citing the carrier's tailoring of its service to meet the special needs of military travelers.

- (5) The City of Clovis Commission reported that it had formally voted to recommend Equity, citing what it characterized as the “past history of declining boardings,” the “perception of Mesa Airlines’ unwillingness to resolve the problems,” and a decline in “customer service satisfaction” due to “high fares, flight delays or cancellations, and lack of marketing and advertising.” The Commission further stated that it was concerned with the impact on Clovis of Mesa’s published intent to become a “pure jet commuter carrier”. Clovis strongly supports two-hub service.
- (6) The Grant County Airport (Hurley) supported Equity’s two-hub proposal, and stated that the current level of service has been in place for over ten years and has produced “no substantial increase in enplanements during this time.”
- (7) The Silver City-Grant County Economic Development Corporation submitted comments supporting service to two hubs (Albuquerque plus either Phoenix or Tucson), without indicating a carrier preference. It requested that the first flight of the day leave Silver City no later than 6:30 a.m. and expressed concern with the use of small turboprop planes (such as those used by Mesa and proposed by Equity), indicating its belief that a small jet could increase the passenger loads.
- (8) Three individuals in Silver City submitted comments, two supporting Mesa, the other supporting Equity.
- (9) The Director of the New Mexico State Highway & Transportation Department, Transportation Division, indicated informally that he defers to the New Mexico communities’ wishes on carrier selection.

Selection Decision

In selecting carriers to provide essential air service, the Department is specifically required under 49 U.S.C. 41733 to consider: (A) the demonstrated reliability of the applicant in providing scheduled air service; (B) the contractual and marketing arrangements the applicant has made with a larger carrier to ensure service beyond the hub airport; (C) the interline arrangements that the applicant has made with a larger carrier to enable connecting passengers and cargo at the hub airport to be transported by the larger carrier through a single reservation, ticket, and baggage check-in; and (D) the preferences of the actual and potential users of air transportation at the eligible place, giving substantial weight to the views of the elected officials representing the users. In addition to these statutory selection criteria, the Department also considers the subsidy cost of the proposal options and the overall quality of the proposed service.

This case brings to a head several issues that have come to form increasingly serious concerns for the Essential Air Service Program. These five Arizona and New Mexico points are far from unique in their perceptions that the fares their travelers are asked to pay are excessive, the schedules they are offered are not optimal, their passenger boardings are declining, and the carrier serving them is not responsive to community concerns. From the Department’s perspective, there has clearly been a steady increase in the cost of providing service at the majority of subsidized essential air service points,

coupled with lackluster passenger traffic growth. In our ongoing discussions with carriers, we have found little or no evidence to rebut the complaint that passenger traffic has failed to grow (and in some cases has actually declined) because of the carriers' pricing policies. We also share the concern, most fully articulated here by the City of Clovis Commission, that the larger commuter air carriers that form the backbone of the program are reducing the presence of 19-passenger and smaller aircraft in their fleets, and are trending toward the operation of larger aircraft that are far less economical for the provision of subsidized essential air service. (We note, though, that some carriers have assured us that this trend reflects only a reduction and not an elimination of the smaller aircraft types, and that there will continue to be a role for the 19-passenger aircraft in their operations.)

In these circumstances, we have considered with special care the benefits of selecting Equity Air Holdings as a new commuter airline entrant and subsidized participant in the Essential Air Service Program. Although we are anxious to encourage Equity and other potential new commuter air carriers to recognize the opportunities that the program offers, the facts of this case compel us to reselect Mesa.

Mesa has been conducting scheduled passenger air service continuously since its beginnings as Mesa Air Shuttle in the Farmington, New Mexico, to Albuquerque market in August 1982. It operates as America West Express at Phoenix, thus providing Kingman and Prescott with a seamless air travel product to destinations served by America West Airlines, a major carrier at Phoenix. It also has interline ticketing and baggage agreements with at least 14 other carriers.² In addition, Mesa continues to be endorsed (with varying degrees of enthusiasm) by a majority of the communities.

Equity proposes a range of service patterns. For those that are comparable to Mesa's current service in terms of both schedules and aircraft type, Equity's subsidy need projections are lower than Mesa's. While Equity has not taken steps to pursue a code-sharing agreement with a major carrier, we note that Mesa also does not code-share in its services at Alamogordo, Clovis, and Silver City. Thus this consideration is neutral. As we have seen, though, Equity has received an endorsement only from Clovis (although that community prefers the two-hub proposal that the Department is unable to select) and a limited endorsement from Silver City (which supports selection only of Equity's two-hub proposal).

Most importantly, however, Equity has demonstrated no earnest efforts to begin the process of securing the necessary operating certification from the Federal Aviation Administration or economic certification from the Office of the Secretary of Transportation. The Department's staff have provided Equity with relevant guidance

² According to the *Official Airline Guide* for September 1999, Mesa has such arrangements with Aloha Airlines, Alaska Airlines, Continental Airlines, Delta Air Lines, Frontier Airlines, Hawaiian Air Lines, America West Airlines, Aero California, Cayman Airlines, Northwest Airlines, Trans World Airlines, United Airlines, US Airways, and Midwest Express Airlines.

on applying for the requisite authorizations, but Equity has not indicated any plans to organize a management team, raise the necessary financing, or initiate any other steps to position itself to seek operating authority as an air carrier. Absent at least a tentative and acceptable plan for becoming an airline, Equity's essential air service proposals do not warrant selection. Accordingly, while we are keenly interested in entertaining proposals from new applicants, we will in this case make final the selection of Mesa Air Group to provide essential air service with subsidy support at Kingman, Prescott, Alamogordo/Holloman Air Force Base, Clovis, and Silver City/Hurley/Deming under the terms of Order 98-12-26.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide service before we may subsidize it for essential air service. We last found Mesa Air Group fit to provide scheduled passenger service as a certificated air carrier by Order 98-12-26, when we tentatively selected it to provide service at these five points. The Department has routinely monitored the carrier's continuing fitness, and based on our review of its most recent submissions, we find that Mesa continues to have available adequate financial and managerial resources to establish and maintain quality service at Kingman, Prescott, Alamogordo, Clovis, and Silver City, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason that we should not find that Mesa remains fit.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY

1. The Department makes final the tentative selection set forth in Order 98-12-26, December 22, 1998, of Mesa Air Group to provide essential air service at Kingman and Prescott, Arizona, and Alamogordo/Holloman Air Force Base, Clovis, and Silver City/Hurley/Deming, New Mexico, as described in Appendix D to Order 98-12-26, for the period of October 1, 1998, through September 30, 2000;
2. The Department directs Mesa Air Group to retain all books, records, and other source and summary documentation to support subsidy claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination thereof by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;
3. We find that Mesa Air Group continues to be fit, willing, and able to operate as an air carrier and capable of providing essential air service at Kingman and Prescott, Arizona, and Alamogordo/Holloman Air Force Base, Clovis, and Silver City/Hurley/Deming, New Mexico;

4. Dockets OST-1996-1899, OST-1996-1901, OST-1996-1902, and OST-1996-1903 shall remain open until further order of the Department; and

5. We will serve a copy of this order on the Governors of Arizona and New Mexico; the Aeronautics Division of the Arizona Department of Transportation; the New Mexico State Highway & Transportation Department; the Mayors and Airport Managers of Kingman, Prescott, Alamogordo, Clovis, Silver City, Hurley, and Deming; the Commanding Officer, Holloman Air Force Base; Equity Air Holdings, Inc., and Mesa Air Group.

By:

A. BRADLEY MIMS

Acting Assistant Secretary for Aviation
and International Affairs

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<http://dms.dot.gov>*